

Did H2O Innovation just sign a deal with Tesla?

Did H2O Innovation Inc. (TSXV: HE0 | OTCQX: HE0FF) just sign a deal with Tesla?

The company provided a corporate update this morning, announcing it has signed \$3.2 million in new industrial and wastewater contracts. Highlighting this update was the announcement that the company **was awarded the engineering contract on a capital equipment project for the largest electric vehicle manufacturer in the US.**

The company has secured the engineering contract to design two identical reverse osmosis (RO) trains, each rated at 2,200 m³/day, for an electric vehicle manufacturing plant located in Texas. Upon successful completion of the engineering work, a purchase order for construction and delivery of the equipment is expected to be issued.

It is public knowledge that Tesla is building a new plant in Texas (the Texas Gigafactory) and construction is well underway. The logical conclusion...

This could be a distraction in the company's share trading as the market comes to understand the deal, but note that this is only one of the new contracts signed that have increased the company's Water Technologies & Services sales backlog to \$37.1 million.

The company is a technical innovator in the water handling business and the market has (finally) recognized this. On September 1, 2020, the company's share price closed at C\$1.09. At market close on January 15, 2021, the company's share price had more than doubled to C\$2.57, with a market capitalization of \$199 million.

Recall that H2O Innovation does business around the world, but mostly in North America with almost 20% of business coming from other global sales. The company has three main business segments – Operating and Maintenance is the largest at approximately 48% of revenues, Specialty Products is the next largest at approximately 30%, with Water Technologies & Services (WT&S) accounting for the remaining 22%. The announced new contracts are the WT&S segment.

The new other new contracts include:

- conversion of a conventional activated sludge plant to a membrane bioreactor (MBR) facility with biological phosphorus removal, also in Texas,
- a redesign and replacement of a failing MBR system at a school in the State of Maryland, which will include repairs and improved durability of the wastewater system using ceramic membranes,
- an exciting first for H2O Innovation, the award of a demonstration pilot for its novel SILO technology at an industrial customer in the Midwest US, and
- a contract in Southern California for the supply of two RO demonstration units at the Hyperion Water Reclamation facility. This project reinforces the Corporation's presence and experience in the critical water reuse market.

According to President and CEO of H2O Innovation, Frédéric Dugré, Texas is a strategic market for the company and “the projects we execute often also lead to opportunities for our other business units down the line”. The company continues put efforts into capturing more wastewater, water reuse, and industrial opportunities, which are characterized by higher gross profit margins.

The company continues to have a strong balance sheet, excellent customer retention and a market leading reputation for quality, innovation and service. With a growing backlog of

orders, the company has no shortage of future business which should be good news for investors looking forward to the potential for future growth in a world that relies on clean water. Doing business with a company the size of Tesla also could have future business implications.